The Economic Club of New York

116th Year
711th Meeting

Marc Rowan
Chief Executive Officer
Apollo Global Management

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Moderator: Andrew Ross Sorkin
Co-Anchor Squawk Box, CNBC
Editor at Large, DealBook

Introduction

President Barbara Van Allen

Good afternoon and welcome to the 711th meeting of The Economic Club of New York. I'm Barbara Van Allen, President and CEO of the Club. And as many of you know, the Club's been recognized as the nation's leading nonpartisan forum for discussions on economic, social, and political issues. We've had more than 1,000 prominent guest speakers appear before the Club over the last century. And so we have a very strong tradition of excellence which continues through to today.

I want to welcome students from Rutgers University, CUNY Graduate Center and Mercy College, who are joining us virtually. And we also have some members in the room from our largest-ever Class of Fellows, the 2023 Class of Fellows. The Fellows represent a select group of diverse, rising, next-gen business thought leaders who have been nominated by members of the Club, and we've just been delighted with the growth of that program over the last five years.

I'm honored to welcome our special guest, Marc Rowan. Marc is the Chief Executive Officer of Apollo Global Management. He is currently serving on the Board, of course, of Directors of Apollo Global Management – I'm sorry about that noise, it's unfortunate – Athene Holding Ltd. and Athora Holding Ltd. He's also Chairman of the Board of

Advisors of The Wharton School and a member of the University of Pennsylvania's Board of Trustees. In addition, he's involved in public policy. He's an initial funder and contributor to the development of the Penn Wharton Budget Model, a nonpartisan research initiative which provides analysis of public policy's fiscal impact.

He's an active philanthropist and civically engaged, a founding member and Chair of Youth Renewal Fund and Vice Chair of Darca, Israel's top educational network operating 45 schools with over 25,000 students throughout its diverse and underserved communities. He is an Executive Committee Member of the Civil Society Fellowship, a partnership of ADL and the Aspen Institute, designed to empower the next generation of community leaders and problem solvers. He graduated summa cum laude from the University of Pennsylvania's Wharton School of Business with a BS and an MBA in Finance.

The format today will be a conversation. We're delighted to have Co-Anchor of CNBC's Squawk Box, Andrew Ross Sorkin, doing the honors of moderating. As a reminder, this conversation, which will begin in a minute, is on the record, and we do have media on the line and in the room. Time permitting, they're going to take audience questions from those in the room. So let us now bring them forward to begin the conversation.

Conversation with Marc Rowan

ANDREW ROSS SORKIN: Thank you so much. Thank you for being here.

MARC ROWAN: Total pleasure.

ANDREW ROSS SORKIN: We'll see if we do better or worse with the soundtrack, but I think we'll get passed it.

MARC ROWAN: The Hollow (?) is a noisy place so I'm not worried.

ANDREW ROSS SORKIN: It's a noisy place, and I've got some noisy questions so we'll see how we do. Here's what I want to do. I think there's sort of three buckets I want to talk to you about, if we could, today. One is sort of the environment. I think we're all trying to make sense of where we really are and what's happening. The other is Apollo itself and the world of finance. And then a little bit about you, and that's sort of my order of events if we could.

MARC ROWAN: I'll delay along on the first two so we never get to the third.

ANDREW ROSS SORKIN: Okay, that's what the politicians know how to do, and we'll try that. But just help us with this. I think everybody in this room, given the uncertainty in the world, and we're looking at bank crises or not. We had the debt ceiling that's no longer a crisis, and everything else, and what the Fed may or may never do. Where do you really see us right now?

MARC ROWAN: I see us as having a non-recession recession, which is always dangerous with our Chief Economist sitting next to me.

ANDREW ROSS SORKIN: Is that a house view or is that a Rowan view?

MARC ROWAN: I think it's a house view. I'm looking for a scent there. But, you know, it's not illogical. I mean think about how we got here. We had a financial crisis. We completely changed the rules of how financial markets worked, but none of us noticed because we printed $8 trillion. And we lowered our interest rates and everything went up and to the right. Stocks went up, bonds went up, real estate went up, and wine went up, and cars went up. And if it could go up, it went up.

Okay, we're at the end of that. Nothing along the way created excesses in the economy, created excesses in financial markets. So I look at where we are today. We're going to have, those of us who deal in financial markets are going to feel like we've had a real recession, and more to come.

ANDREW ROSS SORKIN: In financial markets, you're going to feel a recession.

MARC ROWAN: And that's what I mean by a non-recession recession. I just don't see any sign in the underlying economy of the kind of demand destruction that is going to put employment – unemployment, excuse me, back to levels we would really think about as recessionary. We were at 3.4% unemployment and people were talking about, oh, my God, 4.5%. That used to be full employment, like a year ago. And I think that's exactly where we are. I just see no sign of the kind of demand destruction.

ANDREW ROSS SORKIN: Are you surprised, though, just how strong demand has been, how strong the consumer has been and strong employment has been? And if you think you need to get inflation under control, and I don't know if you do, what kind of destruction has to happen to get there?

MARC ROWAN: I just don't think we know yet. So I think we, the roll-through of very high rates, 500 basis points move, over a really short period of time is going to take time. It's going to take somewhere between 12 and 24 months to roll through the economy. It will eventually reduce inflation. Inflation seems to be rolling over in many instances anyway. But I just don't think we know at this point, but I see no sign of...yes, we're going to have a recession. We're going to have two quarters of negative growth, if only because inflation is going from 8 to 4. The last I looked, that's negative growth.

ANDREW ROSS SORKIN: Do you think we get to 2?

MARC ROWAN: I'd be shocked if we get to 2 before an election, which will keep us from getting to 2.

ANDREW ROSS SORKIN: And what do you think, to get to 2, what kind of unemployment do you think you'd need to have?

MARC ROWAN: I just don't know. I just don't know. But I just don't see us anywhere close to real demand destruction to get to what I would consider a traditional unemployment level recession.

ANDREW ROSS SORKIN: And so given that, both in terms of the lending business that you're in and also the PE business that you're in, what are you even doing?

MARC ROWAN: Look, we do what we always do, which is we're a very optimistic people. Let's start with that. But we're very negative investors. We come with one strategy, which is purchase price matters. And so we assume things are going to get worse. And there are lots of reasons we can assume things will get worse, having nothing to do with the economy – geopolitics, politics, regulatory change, technology change, cultural shifts, and everything else. The answer is we're being careful because we have so much instability in the underlying system...

ANDREW ROSS SORKIN: What I don't understand is you keep saying everything is going to get worse, but then it's not really going to be that bad.

MARC ROWAN: I want to separate financial markets and the financial infrastructure from people who are employed. We have full employment in this country. We have an excess of need for labor over labor. We have restrictive, for us, immigration policies. We have an aging population. We have a period of time where our memory is, it's very hard to get employees. We're very reluctant to part with employees. All of that speaks well to underlying demand from the real economy. On the other hand, we've just been through this incredible period of time where everything levitated, and it's not yet at the ground.

ANDREW ROSS SORKIN: How far are we away from the ground and how far is the ground from us? That's both a timing and depth question.

MARC ROWAN: Look, I'll turn it around in a question. Take real estate, and I know there are probably lots of people in the room who have a view on real estate. But let's not argue whether real estate is good or bad or office or anything else. The typical deal done at a 5% cap rate in the last ten years, I think cap rates have moved 300 basis points. The pure math means your equity is worth six cents on the dollar. That's the pure math. And if someone says, well, that's not my real estate. My real estate is growing 10% a year. Okay, you're right. It's only worth 22 cents on the dollar.

And so you look at the public stocks, you look at three really good real estate companies – SL Green, Vornado, and Paramount – their stocks have been decimated. You look at people's holdings of real estate and everyone is off 5% or 10%. I think we have a ways to go in terms of the correction. I think we have a ways to go in terms of growth. I think very few things, other than public markets, have adjusted.

ANDREW ROSS SORKIN: Okay, well, let's talk about then, when you think about the private markets that haven't adjusted, when does that hit? Who does that hit?

MARC ROWAN: I think it hits everyone. I mean if you think about the asset classes that adjust, fixed-income adjusts first because you're talking about rates and duration with very little judgment for credit. And so, by and large, I think fixed-income has adjusted. Traditional equity, which has lots of comparables, I think, also has adjusted. I think the asset classes that have not adjusted are real assets and growth. Those are the two places where you either have unique companies that are held at unique valuations...

ANDREW ROSS SORKIN: But effectively you're saying that the private markets are, let's get honest, are you effectively saying everybody is mis-marking their books right now?

MARC ROWAN: I don't say they're mis-marking. I say there are conventions. So, for the most part, the real estate market as an example marks their portfolio against an index. That index is backward-looking. It's called NECREIF. And on the way up, it under-marked the gains they had in their portfolio. On the way down, it's slow to mark the portfolio. Is that mis-marking? No, that's the convention that everyone who is in this market understands that we do. But investors also understand that's how it's marked. So if they have opportunities to withdraw their money at higher prices that are going to be in two years, they're going to do that, and they're not unique. You take, in the industry in which we participate, in the retirement services or the insurance industry, we look back three years on real estate valuations. These are conventions that were designed to smooth as opposed to...

ANDREW ROSS SORKIN: So then there's a larger question, which is, you say, "designed to smooth", are these the right conventions for the moment?

MARC ROWAN: I don't know about right or wrong. It depends on what we're trying to do. If we're looking on what's it worth on Tuesday, no. If we care what it's worth over a decade, probably.

ANDREW ROSS SORKIN: I want to ask you about the implication for the banks in just a second, but you mentioned SL Green and Vornado and a couple of the other public companies where we've seen those stocks decimated. You look at that and say, okay, actually there's value there now?

MARC ROWAN: I don't look at it that way. Real estate is not the strong suit of what I do or of Apollo, and you need to have a fundamental view on office because most of those declines are being driven by office. But I think we have to take stock of, you know, I'll just say fundamentals. So I look at where we are at 9 West 57th, $110 a foot in our floor. I look at Greenwich, $114 a foot. I look at L.A., $105 a foot. I look at Miami, $90 a foot. Class A office rents in Chicago, I think they start with a 2 today.

ANDREW ROSS SORKIN: But talk us through then the domino effect. I think there's this expectation – I don't know if you think it's Q4, Q1, I don't know when you think it comes – where all of a sudden these regional banks, which have this exposure and maybe others in the private market – I want to talk to you about that – all of sudden actually have to mark their books. Everything gets marked in a new way and all of a sudden we're talking about a completely different crisis.

MARC ROWAN: Remember, regional banks are not equity investors in real estate. They are lenders. By and large, lenders will be okay in this cycle. That doesn't mean every lender. That doesn't mean all the time. That doesn't mean people who need liquidity at a certain point in time. In this cycle versus the 2007-2008-2009 cycle, actually most of the pain of this cycle is going to be borne by equity rather than by debt.

Regional banking is another issue. Regional banking is a mismatch of assets and liabilities. You have long-term illiquid assets which are funded with deposits. Historically, that's been a relatively safe practice particularly for government and guaranteed deposits. But just like we had an election with full-on social media and we got a surprise, we've just had a banking crisis with full-on online banking. And guess what? $42 billion can leave a bank in four hours without a line. It's not a U.S. phenomenon. This is a worldwide phenomenon.

ANDREW ROSS SORKIN: Okay, so if that's true, and I've been spending too much time thinking about this issue, ultimately is the banking business, as we know it, fundamentally broken? Which is to say, that if the deposits really can leave that fast, there is no way, there is no plausible solution – I don't see – to insure those deposits unless you were going to let all of that money sit in those banks. And what that ultimately would do to the rest of the credit system in America and everywhere else and economic growth would be even worse. So what do you?

MARC ROWAN: I think about shading rather than cataclysmic results. I know it's not as interesting, but I do think that on the margin, banks will not be as good holders of assets, but this is by design. I mean if you think about, I mean where does credit come from? How much credit do we need? Credit is related to GDP. In 2008, the country, the financial markets were staring into the abyss, and regulators, government, the industry made a fundamental choice. Do we allow credit to be supplied exclusively by the banking system? Or do we democratize credit and have the broad investment marketplace supply credit?

Well, they made their choice. Dodd-Frank was, in theory, designed to restrain the market power of the four big banks. It worked. Banking is less than 20% of credit provision in the U.S. today. And, by the way, U.S. capital markets, envy of the world. We're 50% of the world's capital. The government benefits. Business benefits. Consumers benefit. I just think now with this notion of banking instability, and I do mean instability on the margins, I think we will see a fundamental change in regional banking over time. You know, I think it's Canada that has six or eight banks. We have 4,000 banks. Do we need 4,000 banks? Probably not.

And, by the way, if you think about the economics of the business, regional banks pay more for their deposits than the big money center banks. They're now going to pay more for debt and equity at least for a period of time. Their regulatory costs are going up. And now they know that $42 billion of deposits can leave the bank in four hours. So on the margin, we are going to see banks become less asset-intensive and more capital markets. And, by the way, de-banking, it's happening in Europe slowly, and it's happening in Asia ever so slowly.

ANDREW ROSS SORKIN: Okay, you know that we agree on this topic, and yet what you just said, I think, for most people is considered sacrilegious in this country. The idea that you are going to effectively get rid of some of the smaller regional independent banks, community banks, around the country. And so the question is, okay, let's say you do that, is there a way then to either incentivize the big banks that are left or the private credit players that will be consolidated to actually lend in markets that would otherwise be underserved, let's say?

MARC ROWAN: It's happening. I mean eventually economics rule. I mean I don't see us suffering from lack of credit provision right now, other than it's in very isolated sectors. There's plenty of money. People may not like the cost. Because we are all anchored, we're anchored to what's been going on...

ANDREW ROSS SORKIN: So at minimum, the cost is then a lot more.

MARC ROWAN: Well, the cost is more for everything. Inflation, we've had interest rate inflation too. That does not mean there's not credit availability. It just means that we're paying more for our money. But, you know, I start with, you asked about a fundamental view. Are values low today? No. Are interest rates high today? No. Are spreads wide today? No. Is liquidity...no. Fundamentally, I think we're actually normal. Unfortunately, we've anchored ourselves to a decade of abnormality. And it's taking us, and taking consumers, and it's taking businesses a long time to de-anchor.

ANDREW ROSS SORKIN: You look at, what do you think your returns are going to be like over the next five years? And not just Apollo's, but what do you think the average returns in the world will look like or should look like?

MARC ROWAN: For what?

ANDREW ROSS SORKIN: Call it equities. Let's go with equities. Or blend it, look, we have some pension fund managers in here who have to, they have make their numbers because they've got to pay out some money. And they're all trying to figure out how much money can I reasonably expect that I can actually make in this non-recessionary recessionary environment that you're trying to describe.

MARC ROWAN: We had a tailwind. When we print $8 trillion and when we take interest rates from high to low, near zero, everything levitates. And you can extrapolate that and say that was my investment acumen, or you can take it for what it is, which is levered market beta. I think we're at, that tailwind no longer exists and we will see lower rates of return for equities because we just don't have that lift going. If that's single digits, that's single digits. I'm not in the equity market prognostication business.

And in credit, we see higher base rates. But in a real sense, I think returns are going to be very challenged, and I'll go further. Fixed-income markets, broadly-syndicated markets are devoid of alpha. There's no alpha left in publicly-traded or broadly-syndicated markets, and there hasn't been for 20 years. And we know this because you can buy this from big asset managers for less than six basis points. And we also know it because 93% of active managers have failed to beat the market for 20 years. That's a beta market. So if you want to be liquid in public markets, you're getting beta. That's not bad. It just means that's what you're getting.

And, by the way, I'll flip to the equity markets now. In the equity markets, 60% of the market is now ETFs, 80% of volume is S&P 500. Five growth stocks are 25-30% of the S&P. We are essentially all levered to five growth stocks in the Fed. And 85% of active managers have failed to beat the market for 20 years. I would say that is a beta market too.

So where's alpha? And this is the self-serving commercial. Alpha is not in publicly-traded markets. Alpha means you need to step away from publicly-traded markets and be in less liquid and private markets. And that's essentially the business that we've built and the tailwind...

ANDREW ROSS SORKIN: Let me ask you, and you're a publicly-traded company, but let me ask you a policy question. Is that a good thing? Is that a good thing that the true only opportunity for most Americans, which they don't really have access to the alpha you're talking about is in the private markets.

MARC ROWAN: I'm not going to say good or bad, but I'll make a policy statement, and I have no problem doing it because I say this publicly all the time. We take people who need returns the most – people, in their 401K, in retirement – and we force them to be daily liquid for 50 years. What we're doing makes absolutely no sense because we have this mistaken belief that public is safe and private is risky. That's just not true. Public is safe and risky and private is safe and risky. The only thing that's different is the degree of liquidity, and we haven't adapted to the financial system the way it is.

So I'm going to soap box for two seconds, because I do think you need to get these things on the table. So I've already said I think markets have become, public markets are all beta. The second is one of liquidity. One of the other changes of Dodd-Frank was to penalize dealer capital. Dealers hold, as securities, 10% of what they held in 2008. Markets are three times their size. There is no liquidity in public markets on the way down. There's only liquidity on the way up.

We just saw this in U.K. LDI in the fall. LDI was not some crazy bet that U.K. pension managers were doing. It was a mistaken belief that you could sell Triple A and Double A obligations at market. And they tried to and it went down. And they tried to and it went down further, and then they started incurring losses. And I know that because we were a third of the market for two weeks as a market maker, and we're not a market maker. But things got so wide that we stepped in to make a market.

I think that we have overvalued liquidity. We have not appreciated that public markets are mostly beta. We don't fully understand that the banking system is not the primary provider of debt capital in the world, and we haven't really adopted this notion of where risk is. And what is risk? Risk is not being private. Where does return come from in the investment marketplace? The last soap box, and then I'll be quiet.

You know, you can take duration risk. You can take credit risk. You can take business valuation risk. You can take startup risk. Or you can take liquidity risk. How many investors need 100% of their money on Tuesday? None, or almost none. So for a portion of their portfolio, not their portfolio, why not get paid for something that is not a real risk? Less liquidity.

ANDREW ROSS SORKIN: Okay, so you had Jay Clayton join your board as the Chair about two years ago now.

MARC ROWAN: Not only did I have, I'm the luckiest CEO in America.

ANDREW ROSS SORKIN: Jay Clayton, of course, ran the SEC and before that was at Sullivan & Cromwell. I believe he's still a Senior Counsel there now. I raise his name because I wonder, and maybe it's your future job in life, but if this is your view about policy, how you think you could effectuate that policy to change the way investments work in the United States, and what he says when you guys, I'm sure, sit around chit-chatting about this?

MARC ROWAN: Look, I say what I say here and in public. I think it will start with high-net-worth investors and family offices, and we will see a trickle down over time. I tell family offices and high net worth investors that I expect 50% of their portfolio over the next five years to be in alternatives. And I hear like a gasp from the audience, like 50, they're at 8 today or 20 today.

And then I remind them that the definition of an alternative is not what they think it is. It is not private equity or a hedge fund or some sort of fund. It's just an alternative to publicly-traded stocks and bonds and alternatives actually exist from Double A to equity.

And we just don't think that way because we think private, alternative, risk. Public, traded, safe.

And if '22 didn't teach us anything, you look at the decimation of the growth stocks, not down a little. Down 70, 80, 90%. We have to have gotten an education that public can be risky. Private can be risky too. They're not the same gradation anymore.

ANDREW ROSS SORKIN: Let me ask you a question about investing. In the ten minutes that was at the sort of cocktail hour before this began, at least three different people, including a good friend of mine, mentioned ChatGPT to me and AI. And it raised to me the question as to what it is that you think all of these people in this room are going to be doing for a living five years from now in terms of how you think investing gets done, how AI changes it, if it does at all? How many employees, Apollo, and the way you think about sort of what employment and partnership looks like? Are we talking about a fundamental re-think of all this? Or this is some kind of hype cycle that we'll be laughing about in a year or two?

MARC ROWAN: Hard to know, but right now AI, ChatGPT is the first draft of everything. It is a huge productivity saver. It's not just the first draft of ____. It's the first draft of code.

ANDREW ROSS SORKIN: Are you using it?

MARC ROWAN: Yes, of course. I'm always in the business of trying to simplify what we do. And for some reason, people think what we do is complicated. I don't think it's complicated, but people think it's complicated. So I keep saying to Marketing, simple, simple, simple. I don't like what I get back. So I type into ChatGPT, give me the Apollo strategy in Dr. Seuss. And 15 seconds later, I get a page and a half of fabulously simple Apollo strategy. I send it to Marketing. I'm like, now you have your first draft. And that's what we do.

ANDREW ROSS SORKIN: Have you issued the poetry yet?

MARC ROWAN: By the way, I'll send it to you afterwards. It's actually great.

ANDREW ROSS SORKIN: Do you think it actually changes the game, if you will?

MARC ROWAN: I think it does. I think it's a massive productivity saver. I can envision all sorts of uses. I have a hard time, because of my limited technological intelligence, understanding that this is going to be the final decision maker in anything, but I can see this being an incredible first draft of everything.

ANDREW ROSS SORKIN: Okay, but then I'm going to ask you this. When you guys think about hiring plans over the next couple of years, you know, it used to be that you'd have maybe an Investment Manager and they'd have a deputy and maybe they'd have three or four analysts who would help them. Do you now say to yourself, I don't need those three or four analysts, or I need two analysts now, or I need one analyst and basically, or I just need the investor and ChatGPT and that's the end of it.

MARC ROWAN: ChatGPT is one tool. Blockchain is another tool. There are so many tools. All the businesses that are knowledge-based businesses are going through this cycle. And it is clear, our business in the future will be less labor-intensive per unit of assets than it is today. I have no problem recognizing that. How much so, I can't tell you.

ANDREW ROSS SORKIN: Okay, but hiring plans for Apollo this year compared to last year with the advent of ChatGPT, any different?

MARC ROWAN: Totally unrelated. We're so early in the cycle to know. I mean our business is being driven by completely different fundamentals at this point. And ChatGPT is the next five years.

ANDREW ROSS SORKIN: But in a way, it then also goes back to the topic we were talking about which is office and real estate, which is to say if you actually think it is going to change employment and, therefore, you need even less office than we think we need already, what does that do to the rest of the system we just talked about?

MARC ROWAN: Well, we're seeing it. I mean it's reflected in pricing on the margin. Yes, people are using offices less. We are an in-person culture. Having said that, there's a lot we can do on Zoom or its equivalent.

ANDREW ROSS SORKIN: But you have people in five days?

MARC ROWAN: We've been back for two years.

ANDREW ROSS SORKIN: Five days, six days, seven days?

MARC ROWAN: Whatever's required. The answer is you come in as often as you need to come in. But basically, we're in the office, but no one's ever been in the office for five days. We're all traveling. We're visiting clients. We're visiting companies. We're an in-the-field culture.

ANDREW ROSS SORKIN: Can you imagine yourself wearing an Apple Vision Pro?

MARC ROWAN: No.

ANDREW ROSS SORKIN: No?

MARC ROWAN: No, that's just me.

ANDREW ROSS SORKIN: You mentioned blockchain but let me ask you a separate question that actually relates to crypto because interestingly, you know, my understanding is that you guys actually hold some crypto currency on behalf of clients. I believe Apollo does a little bit of that.

MARC ROWAN: I think it's inaccurate. Look, there are lots of diverse viewpoints within Apollo, as I've said publicly. I don't see the use case.

ANDREW ROSS SORKIN: You don't see the use case?

MARC ROWAN: I don't see the use case.

ANDREW ROSS SORKIN: By the way, this is the partnership with Anchorage Digital.

MARC ROWAN: Okay. Storage of digital assets is totally different than crypto.

ANDREW ROSS SORKIN: But you have no use for bitcoin, no use for Ethereum, no use for any of it?

MARC ROWAN: Me personally, I don't see the use case, and Apollo is not in a significant way. But make no mistake, the rails and the technologies that were being built to support that are going to have massive change in our business. And, by the way, the same, I think, is true for gaming. What's happened in our industry is everything that's associated with money, crypto, has been the subject of regulatory scrutiny. The same ecosystem is being built in gaming, and it's not subject to regulatory scrutiny.

And, you know, you can think of the use cases. I mean think about what we do in the U.S. to sell a car. How many have sold a car in this room? Everyone. We go look for a piece of paper, if we can find it, called a title. Then we sign the back of it, literally, there's no notary, there's no nothing. We hand it to the other person. They go and register that. Why? I mean, why do we pay for title insurance? I mean I do think we're going to see a revolution in financial markets as a result of new technologies, but I don't think it has anything to do with crypto.

ANDREW ROSS SORKIN: Are you a believer? You saw the news this morning. We were just talking about it, about Coinbase, both the lawsuit against Coinbase, we saw yesterday the lawsuit against Binance. Are you of the view that this eventually goes away and we don't talk about it?

MARC ROWAN: No clue. No clue.

ANDREW ROSS SORKIN: But you have a negative take, but you don't have a thought about where this goes?

MARC ROWAN: Look, I'm not a casino gaming person either. I don't play the lottery. So the fact that I don't own crypto shouldn't surprise you.

ANDREW ROSS SORKIN: I'm going to ask you a different question just about the advent and shift of what Apollo is today, and maybe you could explain to everybody a little bit about Athene because I think that's sort of a huge shift in what the firm is. And I think oftentimes we think about Apollo in the context of private equity, but it really is something else entirely.

MARC ROWAN: So we're in, we're in two businesses. One is the business that people don't know we're in which is retirement services, and retirement services is Athene. And essentially in 2008, we put $16 million into a shell, and that business is now $350 billion. And it's an insurance company, but it is not a traditional insurance company. It doesn't insure your life, your health, or your property. The only thing it insures is your retirement, essentially your pension, through annuities or through pension guarantees.

And the way we make money is we earn more on the assets we hold than on the liabilities that we pay out. We make spread. But we're also very large and very safe so 95% of our portfolio is fixed-income and 5% is equity. And 95% of that 95% is investment grade. But I've already said I don't think there's any alpha left in publicly-traded markets, so for Athene to be successful, we've had to become a prolific originator of private investment grade. And that's what we've done.

So now I flip over to the Apollo business, the Apollo business is $600 billion of asset management, $300 billion is for Athene and Athora, its European peer, and $300 billion is for clients. It's managed side by side. It's all managed in one strategy – purchase price matters. It's all aligned. We're almost always the largest investor in what we do. But if you think about the business, $450 billion of that business is credit, mostly investment grade, which Apollo, investment grade, that's not the normal way people think. Seventy-five billion of that is traditional private equity, and $75 billion of that, I think I'll call hybrid or hybrid equity, which is the midpoint between debt and equity.

And if I think about the market going forward, all businesses are going to be larger because I think private is going to grow at the expense of public because of this alpha-beta dynamic. But I look at businesses that are scalable and not scalable. I look at our private equity business, it's at scale. We've been in business for 33 years. It's an amazing business. It's an engine of the firm. It's going to be larger but not much larger in five years. There's simply no benefit to scale. In fact, I might argue that there's a detriment to scale.

On the other hand, I look at the private credit business at $450 billion, it sounds big. It's not relevant. In the scheme of those markets, we don't exist. And I think that's amazing, that we're a $450 billion business in a market where we're not relevant. And I think it'll be twice its size in five years.

ANDREW ROSS SORKIN: You say you're not relevant, but we often talk, or regulators talk, or policymakers talk about the idea of the shadow banking system. And they would say that you are the shadow banking system.

MARC ROWAN: Actually not. There's this great thing. So after Covid, there was an FSOC report, and it says shadow banking, the looming crisis. And that sounds pretty ominous.

ANDREW ROSS SORKIN: It does.

MARC ROWAN: And you flip the page, and who is the shadow bank? Open-ended mutual fund is a shadow bank. A pension fund is a shadow bank. Insurance companies are shadow banks. And the question is, is that good or bad, or is that policy design?

We had a choice in 2008 to follow the European system. The European system essentially is a bank-dominated capital market. There is no real capital market other than equity and banks in Europe and Asia and elsewhere in the world. And we instead elected to democratize this notion of credit provision. Are we better or worse off? I think we're better off. We're the envy of the world. Everyone wants what we have. We have this amazing strategic advantage; some would say a strategic weapon. We are 50% of the world's capital. And yes, we have issues of mismatches.

So where do we have mismatches? Well, we have mismatches where people have borrow-short and lend-long. The banking system, we've just seen what happens when you have mismatches. Government is taking steps to correct those mismatches. Open-ended mutual funds, daily liquid. Okay.

ANDREW ROSS SORKIN: You think that's a big mismatch?

MARC ROWAN: I think it's a mismatch. Whether it's a big mismatch or not, time will tell. An institutional investor in a pension fund who has a 20-year time horizon, do they really care? As long as they make fundamentally good credit decisions, they are holding and they're counter-cyclical. For the most part, insurance companies, retirement services businesses, locked-in long-term liabilities holding counter-cyclically.

And so shadow bank, non-shadow bank, is really not the issue. People will often say to me, well, this thing is very risky. Well, is private investment grade riskier than public investment grade? I don't think so.

ANDREW ROSS SORKIN: It may very well not be. The one thing is that you don't have regulators looking over your shoulder at the same degree and level with which the big SIFI banks do today.

MARC ROWAN: Do I borrow...

ANDREW ROSS SORKIN: And I'm not saying that's a good thing or a bad thing. I'm just saying that's what it is.

MARC ROWAN: So I was in Europe ten days ago and I sat down with the CEO of one of the largest European banks. And literally, we had never met before, it was a blind date. A blind date is sometimes fun. So I'm there and I said almost nothing and I got a 15-minute lecture on how we're the beneficiaries of regulatory legis. There are 15 people in the back office. There's no control. Shadow bank, blah, blah, blah. And I said, "Are you done?"

And then I said, okay, my balance sheet is much higher percentage of investment grade than your balance sheet. Second, I've spent $6 billion to $8 billion over the past decade, while people have been chasing growth, building an origination engine. Third, I do no maturity transformation. Everything is perfectly matched. And finally, I hold more equity capital as a percentage of assets than you do. I hold more Tier 2 as a percentage of assets than you do. And if you want to see my portfolio, actually click the website and my portfolio is online. So if you're done, now we can have our meeting. And that is my fundamental response.

When we hear shadow banks and we hear the market at risk, 90% of the use of the term "private credit" is inappropriate. Private credit in journalistic parlance, business journalists, means levered lending, levered lending to buyouts. If we got this table and we put them in business, they would need this table and money and we could be in the levered lending business.

Because levered lending is lending to transactions by financial sponsors. The financial sponsors self-identify. They announce that they've done something. Eric or David pick up the phone and they go call them and lend them money. That is not a business that has long-term barriers to entry, but it is what the press is fascinated with, and the notion of banks losing share to this table.

But this is a Single B, this is a risk asset. Sometimes it's a good risk asset. Sometimes it's not such a good risk asset. That's not what I'm fundamentally talking about. What I'm talking about is the daily business of lending against equipment, lending against receivables, lending against aircraft, lending against real estate, and so on and so on and so on. That is the private investment grade market. And when I visit clients and regulators, I ask provocative questions like is a Single A private credit an alternative? And people look at me like, huh? Like no one's even thought about this before.

ANDREW ROSS SORKIN: Let me ask maybe a provocative question, which is the perception, and I'm not going to say Apollo specifically, but firms like yours, as a lender, to some are considered sharks. And I say it in this following context: there's a view that if you go to a bank, they want to work with you or may not want to work with you, but if they do, and you miss your payment, the guy is going to call you up. He's going to say, look, you missed your payment. I want to work with you. They have no interest in owning the asset. They would actually like to give you some time to figure this out because they don't want to have to deal with the mess that you just made.

The perception is that if you've lent me the money, I missed the payment. You're going to call me up and say you missed a payment and thank you for playing, good luck to you, we now own the asset and we're very happy to own the asset, by the way, and we've now taken it from you. Goodbye.

MARC ROWAN: So, $525 billion of our $600 billion business wants you to make your payment. If you tell us...

ANDREW ROSS SORKIN: Say that again...

MARC ROWAN: $525 billion of our $600 billion business...

ANDREW ROSS SORKIN: So it's that other portion that doesn't want the payment being made.

MARC ROWAN: And that's the private equity business. Think about the collaborative...in the private equity business there's a winner and a loser usually. It's zero sum. Someone buys the asset; someone loses the asset. Sometimes the winner is the loser, but that's a whole other different story. But it is a competitive business. And a small portion of private equity is distressed. So a fraction of a fraction, $525 billion is the provision of loans. If we were in the business that you've just described, I doubt we would be a $525 billion business on our way to a trillion-dollar business in just lending. The reality is we are flexible. We are responsible. We hold these things long term.

Remember, banks don't hold your credit. When you take a loan from a bank, the bank holds a small piece of it and syndicates it. When you take a loan from us, we hold a big piece of it and, therefore, when you need to come back to us, we generally are there to make modifications. And the business is very different than the perception. Will I say that that is the perception? That is the perception.

I mean I take for granted, or sometimes we take for granted that people know who or what an Apollo, a Blackstone, a KKR, or Carlyle is. None of us know. The market does not know who we are or what we do. The firms are all quite different, and it is up to us now over this next period of time to actually change the perception for the reality of what the business is. We are primarily an investment grade provider of private credit. I have no problem with that as a business description. Yes, are we competitive in the private equity business? Absolutely. We're fiduciaries for clients. But better than that, our largest borrower is actually our largest competitor.

ANDREW ROSS SORKIN: Which is...

MARC ROWAN: No naming of names on the client side. But in that business we want 25% of everything and 100% of nothing because we want to be diversified. So if you think about what Athene wants, Athene may want 25% of everything we originate that's appropriate for them. I have no problem syndicating credit to the direct competitors of

Athene, and I do all the time. They're our largest clients. Because they know...

ANDREW ROSS SORKIN: So Blackstone...

MARC ROWAN: Traditional insurers, think of mutuals, think of the name brands in the insurance industry, we are a provider of alpha. We own it for our own balance sheet. Therefore, we're not coming to you as a broker or a banker. We know how to put things on regulated balance sheets. And once you figure out that we're in that business and we're not just selling an asset to you, you step back and you say, well, purchase price matters. They're fully aligned with us. Excess return per unit of risk, which is what an alternative is, that's how we've gotten to be a $600 billion business.

ANDREW ROSS SORKIN: I want to open it up to questions in just a moment, but I do want to, I have a couple of personal questions for you. I want you to explain this to me, if you could. So you are part of what I would describe as the Drexel diaspora. And I'm hoping you can talk about sort of generationally what you think happened because I'm thinking of David Solomon – here are the people who now run Wall Street, David Solomon, Rich Handler, Bennett Goodman, Ken Moelis. You guys know all the names.

MARC ROWAN: It's a long, long list.

ANDREW ROSS SORKIN: So explain what you think you learned then that has led to this now?

MARC ROWAN: So if I go back and I think about the choice I made in 1984, coming out of business school, so 39 years ago – which I can't remember much else – but 39 years ago the notion of what Drexel did versus what everyone else did, I had very little interest in learning about whether Exxon could borrow at X or Y, or how to optimize Exxon's borrowing. I was much more interested in whether the high-yield borrower, whether their business made any sense. It actually forced me to try and understand business rather than financial markets. By the way, completely and totally different from the way the market existed back then.

Let's remember where we were. There was no high-yield bond market. There was no levered loan market. There's no securitization market. There's no ETFs. We take all these things for granted like they sprang from, you know, the ground. All of these things were created. And so for the most part, for the Drexel clientele, you were doing things at first impression. You were thinking about solutions. And I was fortunate enough to actually have the experience of working for Mike Milken. And I thought, you know, young hot-shot, I had come out of Wharton, it was great, I knew the answers to everything. And, in fact, I was actually naturally good at this. Mike would walk by my desk every day at the end of the day. He would ask me one question. I think for 100 days in a row he stumped me. And he wasn't doing it to show me how...

ANDREW ROSS SORKIN: Was it a different question each day or the same question?

MARC ROWAN: Well, you'd think I could learn. No, but he was actually teaching me to think about things differently. He wasn't asking me about the deals. He was asking me about something else that was tangentially related to what I was doing. And I do think this notion of questioning, of creating, of asking really fundamental questions, of thinking about how markets work and just not taking observed data, is what has led to this group being successful because I think those are traits that breed success.

ANDREW ROSS SORKIN: Okay, let's talk about you getting this job. You didn't want this job originally.

MARC ROWAN: No, you read the press, you can't believe the press. You know that already. That's just not the case. Look, I'll be very straightforward. Three people have a hard time running anything.

ANDREW ROSS SORKIN: We're talking about Josh, and we're talking about Leon, and we're talking about you.

MARC ROWAN: But the three of us couldn't run anything, or you and I and David couldn't run anything. It's very difficult in a business to have three people who are responsible. That was the nature of what we had. And about 10 or 12 years ago, I sat with my two partners and I said, okay, the three of us can't run anything. I'm happy to run it, you two go back to work. Alternatively, Josh, you run it, and Leon and I will go back to work. And third, Leon thought I was going to say he runs it, but I know that wasn't going to happen. Third, we can hire someone. Because Leon, while a great ___, was not going to run the thing day to day.

And Josh raised his hand and said he was going to run the business. And, by the way, at that point in time where we were, it was probably the right place. We were just filing financials. We were just creating systems. We were building the infrastructure. And I said, okay, great. I'm going to go off and build this little insurance thing called Athene which, by the way, is now half of our business and forced us into the capital markets business.

So when Leon stepped away from the business in October of, I think '20 or '19, there was an opportunity for me to run the business. I was always willing to run the business. I just never thought I could be effective doing it in a triumvirate or in a two-headed structure. But the chance to run the business, why not? Like what's more fun than this? Literally, we're actually living in incredibly fascinating financial markets. I've run every part of this business previously. When it started, I used to go up to Purchase on Fridays and do the wires and back office. So I've seen all the pieces of it. I'm perfectly happy to run the business, just not in the structure it was.

ANDREW ROSS SORKIN: Without being prurient about it...

MARC ROWAN: Prurient....

ANDREW ROSS SORKIN: No, no, without being prurient about it, how have you, as you're leading this company and reading lots of headlines about your former colleagues, Leon Black, and Jeffrey Epstein, how have you thought about that? How do you deal with it with investors? How do you deal with it with your employees? What's your impression of it? I imagine you wake up some mornings even still, and read stuff and say, ugh.

MARC ROWAN: So straightforward, you know, people make choices. And Leon already said he made a bad choice in his association with Jeffrey Epstein. And that has, in the market we live in, disqualified him from running the business and he stepped away. And I think if you asked him, he'd say it's unfortunate, it's a mistake, and he's very happy to have me running the business.

But internally, we were going through a shift. And it's not an investment shift. The investment side of the business always worked perfectly, and it still works exactly the same way. We are a very contrarian culture. We allow for minority points of view. It is a really good investment process and culture. But when you run a PE shop, you make ten decisions a year and the rest is ceremony. And that allows for centralization of decisions. But as the business got bigger and bigger, you can't do that. You actually have to go and articulate a strategy and make it public and make it so that employees know where they're going. You have to articulate the culture and cultural norms and what people can and can't do. And then you have to back them up and create a culture where people can fail, admit their failure quickly and fix it. If I'm right 70% of the time, that's a lot. But I'm fast to recognize when I've screwed it up and we fix it. And, by the way, that's what we're doing.

And the job is, it's a lot of work but it's not that hard. Because it starts with, what do we offer our clients? We offer our clients only one thing and that's judgment. And judgment comes over a long period of time seeing what we do and don't do in a variety of markets. Therefore, if you're at the firm, I want you to spend your whole career there. So my North Star of everything I do internally, I want to make it the single best place to be a partner in financial services so you spend your whole career there. And if I just, if it were one thing, I would do that one thing. Unfortunately, it's like 100 things. It's not like every day this is what we do.

ANDREW ROSS SORKIN: A final question from me and then we'll open it up. More fun now running this company? You have lots of other pursuits, which maybe this audience knows about. I don't know. You own Duryea's. You own two restaurants, which a bunch of people here go to. You were involved with Jimmy Iovine, with Beats at one point. Maverick Carter and LeBron James, SpringHill, you're an investor and on the board of that production company. Back in the day, you were involved, I think, helping bring Howard Stern to some degree, to Sirius. You like this sort of extracurricular stuff? Where does that land in the portfolio of life that is Marc Rowan?

MARC ROWAN: Look, I've been fortunate that lots of people have made me look good in every one of these things. So I'm not a sports fan, I don't collect anything. There's not a single thing I collect. But I do like to build things. And so Duryea's, etc. is an outgrowth of my general contracting sideline. Everything else, you know, I met Jimmy Iovine in a meeting 25 years ago in Paris. Jimmy wanted to raise money for Beats. He happens not to like financial people. Jimmy said to me, could you raise $80 million and not have me speak to any investors? I'm like, okay. I did. I went to two board meetings. I said nothing. He sold it to Apple. That's good. And the rest, you know, again, it takes very little of my time. This is what I do, but I'm interested in lots of things.

ANDREW ROSS SORKIN: Marc Rowan everybody. Thank you.

MARC ROWAN: Thank you.

ANDREW ROSS SORKIN: Thank you very, very much. I think we have a microphone in the back here. And I know there's a lot of folks who have much better questions than my own, so please have at it. Right here...

QUESTION: Thank you, Andrew. Bal Das from BGD Holdings. I'm curious to get your thoughts on a point you touched on. In a general environment, when you look in advanced economies, there are more folks getting older than there are younger folks working, and people are generally living longer. Where do you think is the retirement services, how equipped are they to meet the needs of the folks that are getting older and living longer? And this is from a macro point...

MARC ROWAN: We're not very well prepared at all. The question is really about retirement services. So there are places around the world who are doing a reasonable job with this. I would say Australia is doing a reasonable job. Israel is doing a reasonable job. And Mexico, if they stay on the path they're on, is actually doing a reasonable job, which is to recognize that the government is not likely to provide what they need in terms of retirement savings so they forced market-based alternatives to retirement savings, which not only have been good for employees but they've been good for the economy as a source of funds. Think of superannuation funds and other sorts of vehicles.

In the U.S., if we had invested Social Security in anything other than what we did, which was Treasuries, we'd be talking about Social Security surplus, not Social Security deficit. So I now look at retirement services, of which we are the largest factor, and it's the beginning of my talk to regulators. So we have a business that serves retirees, and last I looked, the world is getting older. We produce retirement income. And so you would think that we are, as an industry, in a growth industry, yet the industry has not raised any capital for a decade. And, in fact, has paid out most of its capital, 100% of its capital base in the form of dividends, and investors do not value these companies highly. So if I were a regulator interested in consumer solutions, I'd kind of step back and think about whether the regulatory regime is actually one that allows for that.

In the U.S., I think we have time and we have a chance. In Europe, the availability of guaranteed retirement products is down almost 50% in a decade, and I believe it's linked almost exclusively to regulatory change. You have an industry where the large players are getting out because of the fundamentals of the market. You used to be able to find alpha in publicly-traded markets and now you can't. So you can't just outsource your money management. You either have to build internally, and historically retirement services companies, insurance companies have not been good homes for asset managers, or you sell your business. And the vast majority of the large players have elected to sell their business and to withdraw capital. And the rest of the answer will take the rest of lunch, so I'm going to stop there.

ANDREW ROSS SORKIN: I think there was another hand right there, right here.

QUESTION: Just quickly, going back to the banks, 4,006, I don't disagree. A lot of M&A should happen there. Do you think it should happen within the banks consolidating or do you think private money should come in, which then in turn would force some of that private, those private entities to become regulated?

MARC ROWAN: I don't think there's any forcing to be done. I think it's incredibly unlikely that any of the private entities will step forward to be in the banking business. I just don't see it. I think economics will ultimately lead banks to conclude that they need to be larger – I don't mean large – larger or small. A local community bank probably has a niche that is irreplaceable and inaccessible to the vast majority of other financial institutions.

But if you find yourself in the middle, you're bearing the regulatory costs without the advantages of scale, I can't believe that economically that's going to be a good place to be. And once the dust settles, I think, on their own, we will see banks consolidate. I don't think it's going to require any government action. I don't think it's going to require any private capital. Most of these are done equity for equity.

QUESTION: And just lastly on that point, back in '08, Lehman went under so then

Goldman took a bank charter. ____, I believe. All the other brokerage houses became bank charters just because they had to at the time due to the bailouts. So you're saying that nobody is willing to step into that – and I'm not putting words in your mouth – but just because they don't want that oversight?

MARC ROWAN: I don't see it as a desirable outcome, and I don't think others do, to my knowledge. And also the business is not such that you require funding. Remember, these were businesses that were transactional. They were investment banking businesses. They were running balance sheets but they didn't have the positive funding. That's not the business that any of us run. We run match-funded businesses with long-term assets, long-term liabilities.

ANDREW ROSS SORKIN: Can we sneak in one more, we'll try to get to you, I think, if we can.

QUESTION: Thank you. Elena Kvochko, Chief Trust Officer, SAP. Marc, I'm curious to get your view on a lot of the digital transformation trends. So, of course, you know, the AI and the disruptive technologies have very much impacted most of the industry. So I'm curious about your outlook on how this is going to change your business and your industry.

MARC ROWAN: So I start, our business is a $600 billion business built $5 billion at a time, and I think that's our whole industry. And what I mean by that is none of us knew how fast we were going to grow or how the business was going to develop. And we had a critical mass of smart people on the investment side of the business. And what we've done over the last decade is we've built a critical mass of smart people on the non-investment side of the business. And so you're watching us all get to scale and operational efficiency with the advent of newer technologies. And so we're in some ways the beneficiaries of our own delay, and so I think it is going to be transformational for our business.

I don't think, as I say to the team internally, I don't think it's going to result in us retrenching unemployment. I think it is going to slow down the rate of growth. Historically, if we wanted to grow, we through 100 people at it. And now I think you're going to see, in some of our departments, we're going to get to scale this year and next year. And we've said publicly we're going to try and deliver operating leverage over the next three years.

ANDREW ROSS SORKIN: We're going to have time for one more question. You're the finale, sir. Make it great.

MARC ROWAN: The pressure's on...

QUESTION: You talked about commercial real estate and the shift that has occurred in the office space, etc. through Covid and the remote work. What are your thoughts on residential real estate? Any shifts occurring there in your view, and in the future?

MARC ROWAN: Look, so first, I wanted to say thank you for the time today. I hope I've had something worthy to say given who else has been up here. So I do stand in awe, and thank you.

Coming back to real estate, I think the perception is right that we are under-homed in the U.S. And we can debate whether it's as a result of regulatory shifts or building costs or any other metrics that we have. But I continue to think that while residential will cycle, the underlying pattern, the fundamental demand and the need for housing is going to support the market. And that's really what, I want to be clear on real estate, I think there are problems in real estate as a result of patterns of demand shift, particularly in office and a little bit in retail. Everything else, it does not mean people picked that real estate. It just means if you bought a bond, you know, in 2020, and now in 2023 it's worth less, just a result of interest rates. For much real estate, it's a long bond. It's just worth less.

And most real estate is bought on leverage, so it magnifies its impact on the outcome on equity. That does not mean it's all going to come due at once. It doesn't mean all the loans are being called. This is going to be a decade-long transformation. I think on average, you'd rather be industrial than anything else. You'd rather be warehouse. You'd rather be residential. You probably prefer not to be office in Chicago or San Francisco right now. So thank you very much.

ANDREW ROSS SORKIN: Mark Rowan everybody. Thank you.

PRESIDENT BARBARA VAN ALLEN: Excellent. Thank you so much, Marc and Andrew. Just a terrific conversation loaded with insights.

I want to just mention, next up we have Karen Karniol-Tambour, the Co-Chief Investment Officer at Bridgewater. Following that, we're going to be hosting Mark Zandi, Chief Economist at Moody's. And then we will have on July 12, actually in July, one of our Member Peer Exchanges, which is an event focused on "Is it Time for School Choice in New York?" So please be sure to keep checking our website. We're working on putting more events in all the time.

And, as always, we take a moment to thank the members of our Centennial Society in the room whose contributions help to ensure that we're able to deliver the programming that we do. So, for everyone attending virtually, thank you. We'll say goodbye, see you next time. For everyone in the room, please enjoy your lunch. Thank you.